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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT–DR. SUNG WON SOHN, CHIEF ECONOMIST NOVEMBER 29, 1990

Fall 1990 Regional Economic Survey

Region Stronger Than Nation, But Not Immune To Recession

While signs of weakness abound in national economic statistics, the Upper Midwest economy still appears to be in fairly good shape. Even so, bankers indicated that the regional economy is starting to slow, but this finding wasn't universal.

Wisconsin and Iowa cities received the highest economic ratings. Next in line were Duluth, St. Cloud, Rochester, Fargo, Bismarck, Sioux Falls, Rapid City, Omaha, Lincoln, Peoria and South Bend. Economic conditions were also considered fairly good in northern Minnesota and western Montana. Twin Cities ratings were only in the fair to good range.

Agricultural communities in Wisconsin and Iowa also received high marks, followed by Minnesota and Nebraska. Eastern Montana and especially North Dakota received the lowest ratings due to continued drought-related problems.

Looking ahead, parts of the region are likely to experience a recession but some localities will experience only slower growth. Among Upper Midwest cities, the Twin Cities is likely to be one of the hardest hit by a national recession--the result of a real estate slump, continued layoffs in the computer industry and cutbacks in corporate-headquarter jobs. Areas dependent on motor vehicles and parts, housing-related products and other durable goods will also feel the pinch. Communities with a strong presence of paper manufacturing, government or university payrolls and health, insurance and business services will be the most resilient.

Bankers in urban areas have substantially tightened credit standards for commercial real estate loans. This tightening was most evident in the Twin Cities and Phoenix, where it will take a number of years to get rid of the glut of office space.

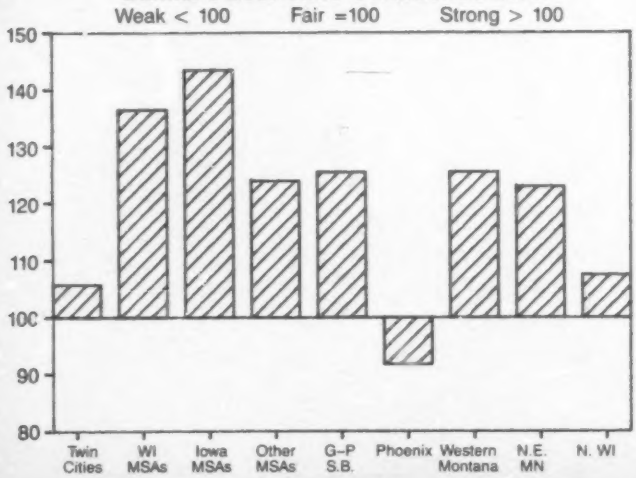
After several strong years, there is more downside risk for agriculture than upside potential. Farm income will slip due to increased production costs, cuts in government subsidies and lower livestock profits. Although farmers are in much better shape to cope with this changing environment, some producers may find it difficult to make the needed adjustments.

These findings are derived from our 29th semi-annual survey of bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin. This fall, the survey was extended to include eastern Wisconsin, Galesburg and Peoria, Illinois, South Bend, Indiana, and Phoenix, Arizona. Conducted in late October and early November, this survey drew responses from more than 1200 bankers.

Twin Cities Economy Weakening

Although still decent, the Twin Cities economy has begun to weaken. Forty-four percent of the bankers rated the local economy good, 47 percent fair and 9 percent poor. These are significantly lower ratings than a year ago and the lowest ratings since April 1983, when the economy was just beginning to recover from the last recession. As shown in Table 1, the Twin Cities was rated the weakest among cities in the Upper Midwest.

Banker's Economic Confidence Index



Agricultural Banker's Confidence Index

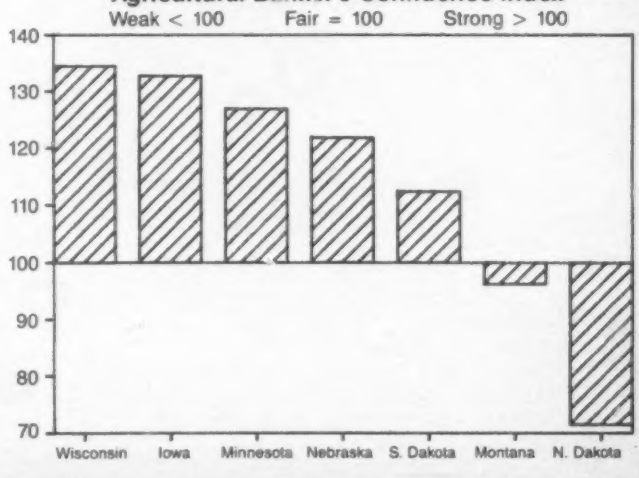


TABLE 1
CURRENT ECONOMIC CONDITIONS

	Very Good	Good	Fair	Poor	Very Poor	Index
Twin Cities	0	44	47	9	0	126
Wis. MSAs	21	54	25	0	0	162
Iowa MSAs	12	65	23	0	0	161
Other MSAs	3	53	42	3	0	140
G-P-S.B.	5	58	32	5	0	145
Phoenix	0	0	89	0	11	89
N.E. Minn.	0	59	35	3	3	139
N. Wis.	0	30	60	10	0	115
W. Montana	8	46	42	4	0	140

Percentage of bankers rating conditions good, fair, etc.

TABLE 2
ECONOMIC CONDITIONS BY SECTOR

	Auto Sales	Gen Retail	Single Family Homes	Commer Real Estate	Mfg
Twin Cities	60	85	51	27	127
Wis. MSAs	103	116	123	80	137
Iowa MSAs	85	129	143	117	100
Other MSAs	80	116	99	72	117
G-P-S.B.	109	114	89	71	107
Phoenix	100	125	56	5	109
N.E. Minn.	95	112	85	63	88
N. Wis.	67	100	78	58	116
W. Montana	109	118	128	103	100

Weak < 100 Fair = 100 Strong > 100

The commercial real estate market is mostly weak to very weak. Office vacancy rates will rise substantially when several major office buildings are completed in 1991-92. Single-family housing is fair to mostly weak, while multi-family housing is weak to very weak. Auto and general retail sales are fair to weak; manufacturing is fair to strong. Small high-tech manufacturing is considered strong, while the output of computers, windows and industrial machinery is down. Medical services received high marks.

About 35 percent of the bankers said profit margins of commercial businesses were moderately lower than a year ago; the remainder reported little change. More than half of the bankers said they substantially tightened credit standards for commercial real estate this year; another 31 percent tightened standards somewhat. Loan demand is weak, as evidenced by virtually no increase in loan volume from a year ago. This was the weakest loan growth since this question was first asked in 1983.

Bankers reported that 1.5 percent of all loans were non-performing, up from 1 percent last spring. Nearly 40 percent anticipate higher loan charge-offs this year; 19 percent expect fewer charge-offs.

More than half of the Twin Cities bankers predict moderately worse economic conditions during the next six months; 15 percent forecast substantially worse economic conditions. This pushed the Bankers Confidence Index down 42 points from a year ago, to the lowest level since October 1982. The major factors behind this appraisal include trouble in the Middle East, lack of confidence in the general economy, federal deficit problems and tighter credit standards. Overall, the Twin Cities economy is likely to experience a mild recession, faring only moderately better than the national average at best.

Wisconsin Cities Top Rankings

Bankers ranked Wisconsin cities strongest in the Upper Midwest, although just a hair better than Iowa. Twenty-one percent of the bankers rated current conditions very good, 54 percent good and 25 percent fair. The highest ratings were given to Madison, Appleton, Oshkosh, Green Bay, Manitowoc and Eau Claire. Fewer than one-third of the bankers said economic conditions were weaker than six months ago; most reported no change.

Auto sales were rated mostly fair and general retail sales fair to strong. Half of the bankers rated single-family housing strong to very strong, and only 21 percent weak. But half of the banks rated multi-family housing weak to very weak. Commercial real estate was rated only slightly higher. Wisconsin manufacturing was considered fair to strong, the highest rating among the states surveyed.

One-third of the bankers rated profit margins of commercial borrowers moderately lower than a year ago; the rest reported little change. On average, 0.92 percent of all loans were non-performing, the second lowest among Upper Midwest states. About 45 percent of the bankers in Wisconsin cities expect higher loan charge-offs this year; 14 percent anticipate lower charge-offs. Banks in Wisconsin cities experienced 5.5 percent loan growth during the past 12 months.

Despite positive statistics, there are signs of a softening economy. Nearly 60 percent of the bankers anticipate moderate weakening of the economy during the next six months. Key factors behind this appraisal are the Middle East crisis, an unstable federal budget process and low consumer confidence. In addition, Wisconsin manufacturers will be hurt by a national slump in commercial and residential construction, auto sales and durable good orders.

Iowa Cities Robust

Iowa cities are essentially tied with Wisconsin for the strongest urban economies in the Upper Midwest. Twelve percent of Iowa bankers rated current conditions very good, 65 percent good and only 23 percent fair, with little evidence of a slowdown during the past six months. The strongest Iowa cities include Des Moines, Cedar Rapids and Iowa City. Even the weakest--the Quad Cities area--was rated fair to good.

Iowa bankers rated general retail sales, housing and commercial construction mostly fair to good--the highest ratings for these categories in the Upper Midwest (see Table 2). Auto sales were considered fair to weak. Manufacturing was rated mostly fair; higher fuel costs have caused farm machinery sales to slip, at least temporarily.

Among Upper Midwest cities, Iowa bankers reported the least slippage in profit margins of their commercial borrowers. Unlike their counterparts elsewhere, 65 percent of the Iowa bankers expect fewer loan charge-offs this year; only 4 percent anticipate higher charge-offs. Although commercial credit standards have been tightened, this trend was somewhat less pronounced in Iowa than in other Upper Midwest cities. On average, 0.89 percent of their loans were non-performing, the best record in the region.

Iowa bankers were the most optimistic about economic prospects during the next six months; only 28 percent predict a moderately weaker economy. This optimism is tied to strong highway and commercial real estate construction, strong medical and service industries, stable government and university jobs, profitable livestock prices and excellent crop yields.

Other Upper Midwest Cities Varied

Bankers in Duluth, St. Cloud, Rochester, Fargo, Bismarck, Sioux Falls, Rapid City, Omaha and Lincoln also rated local economic conditions good. The economy was rated mostly fair in Superior, Moorhead, Grand Forks, Mandan, Billings and Great Falls.

Single-family housing was rated strong in Duluth, St. Cloud and Bismarck, fair in Rochester, Fargo and Mandan, and weak in Superior, Grand Forks and Moorhead. Auto sales were rated mostly fair to weak, general retail fair to strong. Manufacturing was rated mostly fair to strong; the highest ratings occurred in Bismarck, Sioux Falls and Rapid City.

Bankers in Duluth, Superior, Grand Forks, Bismarck, Fargo, Rapid City, Great Falls and Lincoln expected little change in overall economic conditions during the next six months. Duluth reports strong tourism, a moderately strong paper industry and steady taconite and retail sectors. Rapid City touts diversification, attraction of two major new employers and a strong construction sector. The presence of state government and the university will continue to bolster the Lincoln economy.

The Billings economy is projected to remain steady or even strengthen moderately--a reflection of strong cattle prices and improving conditions in the oil and construction industries. Moderately weaker conditions are forecast for St. Cloud, Rochester, Sioux Falls and Omaha. Nevertheless, diversification will help cushion the St. Cloud economy. Similarly, Rochester bankers noted the stabilizing influence of computer manufacturing and medical services, but detect cautiousness on the part of consumers. A general downsizing of the U.S. economy, a slowing real estate market, lower corporate profits, tighter credit standards, increased fuel costs and higher taxes are expected to cool Omaha's economy.

Galesburg-Peoria-South Bend Mixed

The Galesburg economy was rated fair to good, showing little change from six months ago. Auto and general retail sales were considered fair, housing weak, manufacturing fair to weak and farming fair to strong.

Peoria's economy was rated mostly good. Auto sales were considered fair, general retail sales, housing and manufacturing fair to strong and agriculture mostly strong.

South Bend's economy was rated good at present. Auto sales were considered fair to strong, other retail fair, housing fair to weak, manufacturing fair to strong and farming strong. Bankers at all three locations predicted unchanged to slightly weaker conditions during the next six months. Profit margins of commercial businesses at these three locations were somewhat weaker than a year ago. Non-performing loans averaged 2 percent of all loans, but the median response was only 0.5 percent. Loan volume was up 4.5 percent from a year ago on average; the median response showed only a 3 percent gain.

Phoenix Economy Faltering

The Phoenix economy was rated mostly fair, showing little change from six months ago. Auto sales were rated fair to weak, general retail fair to strong, single-family housing fair to weak, multi-family housing mostly weak to very weak, commercial real estate very weak and tourism strong.

Profit margins of commercial customers have weakened during the past six months; credit standards have been tightened substantially, especially for commercial real estate. Loan demand is quite soft, with the median response showing no change in loan volume from a year ago. Non-performing loans averaged 3.5 percent of all loans; the median response was 2 percent. Nevertheless, loan charge-offs were expected to be mostly lower than a year ago.

Pointing to a depressed real estate market, Phoenix bankers expected little change in economic conditions during the next six months. Office vacancy rates are hovering near 26 percent. Although much too high, vacancy rates appeared to have peaked.

Northeastern Minnesota Fairly Healthy

Bankers rated the economy fair to strong--little changed from six months ago. Auto sales are fair to weak, general retail fair to strong, housing and manufacturing mostly fair to weak, tourism fair to strong. Farming was rated mostly fair, but ranged from good to very weak.

Profit margins of commercial borrowers are weaker than six months ago; credit standards have been tightened. However, 39 percent of the banks

TABLE 5
FARM-RELATED INDUSTRIES

	Machinery Sales		Farm Supply	
	Regional Centers	Small Towns	Regional Centers	Small Towns
Iowa	134	114	142	135
S. Dakota	116	83	131	114
Minnesota	128	114	136	130
Wisconsin	122	117	132	126
Nebraska	116	125	134	132
Montana	61	81	91	92
N. Dakota	56	60	77	76

Weak < 100 Fair = 100 Strong > 100

except in South Dakota, where sales were considerably stronger in regional centers. In some states, farm machinery and farm supply sales were strongest in small towns (see Table 5).

Weaker Farm Economy Predicted

Economic conditions in agricultural communities are expected to weaken at least moderately during the next six months. Major factors behind this trend include higher fuel, chemical and fertilizer prices; sharply lower grain prices; reduced government subsidies starting with 1991 crops; lower milk prices; potentially lower hog prices; increased taxes; higher heat costs this winter; layoffs induced by a national recession; and increased living costs in general. On top of this, some agricultural areas continue to be hampered by drought.

Increased government deficiency payments will help offset lower grain prices. Lower interest rates will also cushion the drop in farm income. Lower farm debt levels will also help. Livestock earnings are expected to remain reasonably strong, while profit margins of grain producers will remain quite thin, especially for producers having considerable amounts of debt.

Higher fuel costs and pending farm subsidy cuts have already caused a noticeable drop in farm machinery purchases this fall. About 35 percent of the bankers expect farm machinery purchases will continue to decline at least moderately during the next 12 months; only 26 percent forecast increased purchases. Two-thirds of the North Dakota bankers expect moderately to substantially weaker machinery sales.

While the drop in farm earnings will hurt, the agricultural sector in general is in much better shape to weather this downturn than during the early 1980s. Most farmers will be able to cope with the changing agricultural environment, but some are unlikely to survive.

Current Farm Finances

Farm Failure Rates Remain Low. On average, bankers estimate that 1.1 percent of their customers quit farming during the past 12 months. However, more than half of the bankers said none of their customers went out of business. These figures are roughly the same level that has persisted since the fall of 1988. Drought-plagued North Dakota is one exception to their pattern. Bankers in that state indicate that 2.2 percent of their farm customers quit farming in the past 12 months, nearly double the level reported a year ago.

Bankers report that about 7.7 percent of their farm customers are experiencing negative cash flow, up slightly from last spring. The greatest difficulties are apparent in eastern Montana and North Dakota, where about 15 percent of the farmers are experiencing negative cash flow.

Land Prices Rising at Slower Rate. Bankers indicated that land prices are about 5 percent higher than a year ago, a more moderate gain than recorded in the previous two years. North Dakota and Montana bankers reported no increase in land prices.

Only one-third of the bankers predict further increases in land prices in the next year; 15 percent forecast declines. In North Dakota, 45 percent of the bankers anticipate lower land prices; only five percent expect higher land values.

Loan Problems Slightly Higher. On average, 1.4 percent of all farm loans were non-performing (the median response was 0.3 percent), up slightly from April, but still down from a year ago.

Farm loans appear to be in better shape than the overall loan portfolio. On average, 1.8 percent of all loans were non-performing. North Dakota bankers reported the highest level of non-performing loans, averaging 3.2 percent. South Dakota and eastern Montana were next in line at 2.1 percent.

Despite slightly higher loan problems, 40 percent of the bankers expected lower loan charge-offs this year; only 18 percent anticipated higher charge-offs.

Bankers also reported that loan volume is up an average of 5.5 percent.

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Director of Regional Economics

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1. **Non-performing loans** as a percentage of total loan portfolio?

Cities	Survey Average	Response by Percentile 25th	50th	75th
Twin Cities	1.59	0.77	1.25	2.00
Wis. MSAs	0.92	0.38	0.85	1.10
Iowa MSAs	0.89	0.14	0.63	1.17
Other MSAs	1.03	0.07	0.60	1.28
G.-P.-S.B.	2.02	0.20	0.50	1.50
Phoenix	3.57	0.00	2.00	7.49
Non-Ag Areas				
N.E. Minn.	1.84	0.29	1.25	3.00
N. Wis.	1.79	0.56	1.10	1.85
W. Montana	2.00	0.24	1.15	2.45
Ag Areas				
Iowa	1.68	0.01	1.00	2.00
Minnesota	1.65	0.10	1.00	2.00
Montana	2.07	0.01	1.03	3.00
Nebraska	1.36	0.01	1.00	2.00
North Dakota	3.25	1.00	2.00	5.00
South Dakota	2.12	0.01	1.00	2.88
Wisconsin	1.77	0.50	1.00	2.15

2. Percentage of farm business having **negative cash flow** this year?

	Survey Average	Response by Percentile 25th	50th	75th
Iowa	5.8	1.0	5.0	10.0
Minnesota	6.2	1.0	4.0	10.0
Montana	13.2	5.0	9.0	20.0
Nebraska	7.1	1.0	5.0	10.0
North Dakota	15.7	5.0	10.0	25.0
South Dakota	9.6	1.9	5.0	15.0
Wisconsin	6.4	2.0	5.0	10.0

3. Percentage of farm customers that went **out of business** this year?

	Survey Average	Response by Percentile 25th	50th	75th
Iowa	0.8	0.0	0.0	1.0
Minnesota	1.0	0.0	0.0	1.0
Montana	1.1	0.0	0.0	1.0
Nebraska	0.9	0.0	0.1	1.0
North Dakota	2.2	1.0	1.0	2.5
South Dakota	0.9	0.0	1.0	1.5
Wisconsin	1.2	0.0	1.0	2.0

4. **Price of non-irrigated cropland?** (dollars/acre)

	Survey Average	Response by Percentile 25th	50th	75th
Iowa	$1,350	1,100	1,400	1,600
Minnesota	960	650	950	1,200
Montana	245	200	225	300
Nebraska	710	500	750	800
North Dakota	400	250	325	400
South Dakota	375	250	350	450
Wisconsin	675	500	700	800

5. **Market value of irrigated cropland?** (dollars/acre)

	Survey Average	Response by Percentile 25th	50th	75th
Iowa	$1,359	1,200	1,500	1,750
Minnesota	938	700	850	1,200
Montana	706	429	650	925
Nebraska	1,177	913	1,200	1,388
North Dakota	543	400	500	700
South Dakota	565	375	475	650
Wisconsin	928	800	825	1,100

6. **Percentage change** in **cropland prices** from a year ago?

	Survey Average	Response by Percentile 25th	50th	75th
Iowa	6.5	3.0	5.8	10.0
Minnesota	7.2	0.0	5.5	10.0
Montana	1.2	0.0	0.0	5.0
Nebraska	5.1	0.0	5.0	10.0
North Dakota	-0.7	0.0	0.0	0.0
South Dakota	5.8	0.0	5.0	10.0
Wisconsin	3.9	0.0	1.0	5.5

7. Anticipated trend in **land prices** during **next 12 months?**

	Up Moder	No Change	Down Moder	Down Subst
Iowa	40	57	9	0
Minnesota	42	52	6	0
Montana	25	48	23	4
Nebraska	16	63	21	0
North Dakota	5	50	42	3
South Dakota	26	63	11	0
Wisconsin	34	54	12	1

8. Percentage of **total loan volume** during last 12 months?

Cities	Survey Average	Response by Percentile 25th	50th	75th
Twin Cities	0.5	-5.0	0.0	9.0
Wis. MSAs	5.5	0.0	6.0	13.2
Iowa MSAs	6.0	0.0	6.0	10.0
Other MSAs	8.1	0.0	5.0	10.5
G.-P.-S.B.	4.5	0.0	3.0	10.0
Phoenix	3.7	-8.8	0.0	20.5
Non-Ag Areas				
N.E. Minn.	4.4	0.0	5.0	10.0
N. Wis.	0.5	-6.3	0.0	7.3
W. Montana	5.7	0.0	5.5	10.0
Ag Areas				
Iowa	6.0	0.0	5.0	10.0
Minnesota	4.6	0.0	5.0	10.0
Montana	7.7	0.0	5.0	10.0
Nebraska	4.7	0.0	3.5	9.4
North Dakota	3.4	0.0	4.0	10.0
South Dakota	5.9	0.0	5.0	10.0
Wisconsin	7.6	2.0	7.0	10.0

expect fewer loan charge-offs this year, while 27 percent anticipate more charge-offs. Loan volume is up 5 percent from a year ago.

Economic conditions are expected to remain unchanged or perhaps weaken moderately during coming months. Higher oil prices will negatively impact farming and tourism, while higher heating costs will sap consumers' purchasing power. Taconite mining and paper/paperboard manufacturing are expected to remain stable, but logging may weaken.

Western Montana Fairly Strong

Bankers rated the local economy fair to good--the same to stronger than six months ago. Auto and general retail sales are fair to strong. Sixty-five percent of the bankers rated single-family housing strong to very strong. Ranching and mining were considered strong, but forest products have been weak. The influx of retired persons is boosting selected communities, while government and university payrolls are a stabilizing influence elsewhere.

Profit margins of commercial businessmen are the same to moderately stronger than six months ago; credit standards have changed little. Loan volume is up 5.5 percent. Non-performing loans averaged 2 percent of all loans; the median response was 1.1 percent. Sixty percent of the bankers expect lower loan charge-offs this year; only 12 percent forecast higher charge-offs.

Bankers were fairly optimistic about the next six months, expecting the same to moderately weaker conditions. Higher oil prices will adversely impact agriculture, tourism and lumber-transportation costs. However, tourism will continue to benefit from the strong Canadian dollar. Environmental restrictions are expected to continue to hamper the logging industry.

Most Agricultural Communities Strong

With the exception of North Dakota and eastern Montana, bankers from agricultural communities gave their local areas high marks. Iowa and Wisconsin topped the list with at least 70 percent of the bankers rating current economic conditions good to very good. Minnesota and Nebraska were next in line, with about 60 percent of the bankers rating economic conditions good. These strong ratings reflect excellent crop yields, favorable livestock prices, high milk prices (until very recently) and good off-farm job opportunities.

Conditions were somewhat weaker in South Dakota, with only 45 percent of the bankers rating the economy good, 48 percent fair and 7 percent poor. While crop yields were excellent in parts of the state, drought continued in some localities. One-fourth of the eastern Montana bankers rated economic conditions poor, and only 31 percent good. These results also reflected varied moisture conditions across the state.

North Dakota reported the weakest economic conditions. Although crop yields were much improved this year, some localities were still hampered by prolonged drought. Nearly 40 percent of the North Dakota bankers rated current economic conditions poor; only 12 percent rated conditions good.

There was a noticeable different in bankers ratings of selected sectors of the economy in regional trading centers versus small rural towns. As shown in Table 3, mainstreet business was rated mostly fair to strong in regional trading centers, but fair to weak in smaller rural towns. These differences were especially evident in South Dakota, Iowa, Minnesota and Montana.

The housing market (Table 4) was also typically stronger in regional trading centers than in smaller towns, although this wasn't always the case. The housing market was poorest in North Dakota and Montana, while rated strongest in Iowa and in regional trade centers in South Dakota.

Manufacturing was typically rated fair to good, except in South Dakota's small towns and throughout Montana and North Dakota, where manufacturing was considered weak. Manufacturing was much stronger in South Dakota regional centers than in smaller towns.

Farm machinery sales and farming supply industries were rated mostly fair to good, except in Montana and North Dakota, where these sectors were typically rated fair to poor. And there was less difference between regional centers and small towns,

TABLE 3
ECONOMIC CONDITIONS IN AGRICULTURAL AREAS

	Overall Conditions		Mainstreet Business	
	Regional Centers	Small Towns	Regional Centers	Small Towns
Iowa	149	151	119	93
S. Dakota	154	122	118	84
Minnesota	151	145	116	91
Wisconsin	165	155	100	98
Nebraska	144	143	98	92
Montana	108	104	106	88
N. Dakota	81	78	63	55

Weak < 100 Fair = 100 Strong > 100

TABLE 4
HOUSING AND MANUFACTURING CONDITIONS

	Housing Market		Mfg. Sector	
	Regional Centers	Small Towns	Regional Centers	Small Towns
Iowa	138	126	128	119
S. Dakota	134	86	140	83
Minnesota	116	96	127	111
Wisconsin	113	118	132	124
Nebraska	111	105	113	111
Montana	67	83	75	60
N. Dakota	66	40	82	73

Weak < 100 Fair = 100 Strong > 100

NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST MAY 15, 1991

Spring 1991 Regional Economic Survey

Region Struggling Less Than Nation

Despite some weak spots, the region is weathering the recession fairly well. However, most bankers feel the recession will stretch well into the second half of this year.

Iowa cities ranked among the strongest in the Upper Midwest, with little evidence of a recession. Sioux Falls, Rapid City, Duluth, Rochester, St. Cloud, Omaha and Lincoln are also doing fairly well.

The Minneapolis-St. Paul area and most Wisconsin cities have been hurt by the recession. The Fox River Valley area and Green Bay are exceptions. Peoria also remains fairly strong, while Galesburg and South Bend have weakened.

Although still weak, Colorado's economy is starting to mend. Boulder appears strongest, followed by Fort Collins and Loveland. Denver is slowly improving, while Colorado Springs remains weak. Wyoming's economy is also slowly improving.

The rural economy is being supported by strong cattle and hog prices, but dairy earnings have plunged and grain producers are barely breaking even. Several years of drought have hurt North Dakota, eastern Montana and portions of South Dakota, but recent rains may bring welcome relief.

Agricultural-loan portfolios have stopped improving, the number of producers quitting farming is turning upward again, and land prices are considered too high relative to income. However, reduced debt levels are helping keep agriculture healthier than in the mid 1980s.

These findings are derived from our 30th semiannual survey of bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin. Last fall, the survey was extended to include eastern Wisconsin, Galesburg and Peoria, Illinois, South Bend, Indiana and Phoenix, Arizona. This spring Colorado and Wyoming were added. Conducted in mid April, this survey drew responses from more than 1,200 bankers.

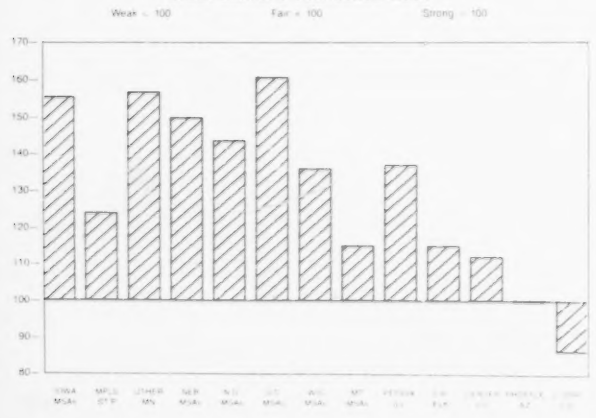
Twin Cities in Mild Recession

Although holding up better than the nation, the Twin Cities economy continued to weaken this year. Half of the bankers characterized the economy as flat or stagnant, 36 percent said the Twin Cities is in a recession and only 14 percent feel the economy is beginning to improve. These marks place the Twin Cities economy in the bottom one-third of the cities in the region.

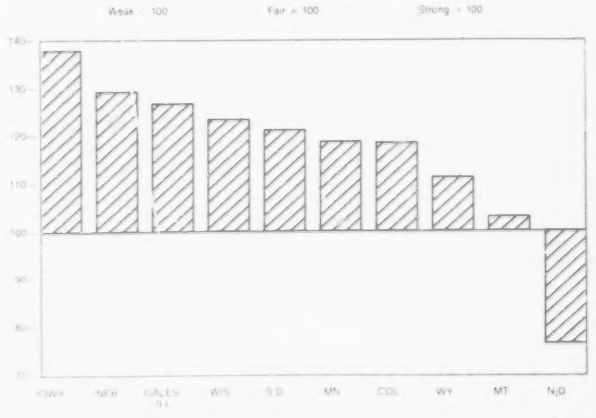
Auto sales are weak, housing and general retail sales fair to weak, and manufacturing fair to strong. Plastics, medical instruments and food processing received high marks. Defense, tool and die, and job shops are considered fair, but output of computers, windows and industrial machinery is down. Half of the bankers said profit margins of commercial businesses were moderately to substantially lower than six months ago; the remainder reported little change.

The commercial real estate market is mostly weak to very weak -- a buyers'/tenants' market. Office-

Urban Banker's Confidence Index



Non-Urban Banker's Confidence Index



METROPOLITAN AREAS
CURRENT ECONOMIC CONDITIONS INDEX

	Over-all	Auto Sales	Gen Retail	House Mkt	Comm. R.E.	Mfg
Mpls-St.P.	122	63	84	94	32	113
Other MN	163	75	117	163	75	125
Iowa MSAs	166	64	109	161	114	119
WI MSAs	144	51	84	140	70	120
SD MSAs	181	100	125	163	119	175
ND MSAs	150	50	100	150	42	100
MT MSAs	115	25	119	138	56	100
Neb. MSAs	150	75	125	150	125	150
Peoria	158	100	158	158	150	100
R.I.-Moline	150	88	100	167	80	88
S. Bend	115	10	55	115	40	70
Denver	105	58	92	116	42	89
Boulder	175	100	175	175	63	175
C. Springs	66	80	100	64	11	91
Phoenix	81	81	81	81	0	100

Weak < 100 Fair = 100 Strong > 100

NONURBAN COMMUNITIES
CURRENT ECONOMIC CONDITIONS INDEX

	Over-all	Main Street	Housing Market	Mfg	Farming
Iowa	147	91	127	104	138
Minnesota	125	80	99	98	110
N.E. MN	119	102	119	91	62
E. MT	94	70	55	75	112
W. MT	123	99	136	84	125
Nebraska	140	93	108	96	131
N. Dakota	76	55	52	67	81
S. Dakota	129	83	98	79	129
Wisconsin	129	83	108	107	64
Galesburg	132	79	136	75	132
CO Ag.	114	88	103	101	136
Other CO	129	97	126	87	104
Wyoming	108	71	105	73	154
Total	126	84	104	95	114

Weak < 100 Fair = 100 Strong > 100

vacancy rates in downtown Minneapolis will rise substantially when four major office buildings are completed in 1991-92. A glut of retail space also exists. More than half of the bankers substantially tightened credit standards for commercial real estate during the past six months; another 30 percent tightened standards somewhat.

As evidenced by virtually no increase in loan volume from a year ago, loan demand is weak, continuing a pattern that emerged last fall.

According to the median response, 1 percent of all loans are nonperforming at Twin Cities banks, about the same as last fall. The average response was 1.7 percent. More than half of the bankers expect moderately to substantially lower loan charge-offs this year; only 28 percent anticipate higher charge-offs.

While the worst is over, bankers don't expect much improvement in the Twin Cities economy during the next six months. About 60 percent predict no improvement in the economy, while the remainder forecast moderate improvement. But this is a more optimistic appraisal than last fall, pushing the Bankers Confidence Index up modestly.

Iowa Cities Score High

Iowa cities ranked among the strongest in the Upper Midwest. Economic conditions were rated good in virtually all Iowa cities including Ames, Cedar Falls-Waterloo, Cedar Rapids-Marion, Des Moines, Dubuque, Iowa City and Sioux City. Recession was not evident in any of these cities, although one-fourth of the bankers reported slower growth and one-fifth fairly flat economies. However, 44 percent of the bankers said economic conditions are improving and 13 reported continued strong growth.

Auto sales were rated fair to weak. General retail sales, commercial real estate and manufacturing were considered fair to strong. Housing and farming received high marks. Meat packing and value-added grain processing were among the strongest manufacturing sectors. Farm-machinery production and metal fabrication were rated mostly fair, while doors, furniture and heavy equipment were mostly weak.

Profit margins of commercial borrowers were the same to slightly higher than six months ago. Nearly 60 percent of the Iowa bankers expect lower loan charge-offs this year; none anticipate higher charge-offs. Nevertheless, most bankers tightened credit standards. Loan volume is 6 percent higher than a year ago -- among the highest for the region. On average, 0.5 percent of all loans were nonperforming -- among the lowest in the region.

Wisconsin Cities Hurt By Recession

Weakening since last fall's survey, Wisconsin's cities were bumped from among the top-ranked in the region. However, 56 percent of the bankers still rated current conditions good, compared with 44 percent fair. Strongest cities include Green Bay, Manitowoc and those in the Fox River Valley, while the weakest cities -- La Crosse and Eau Claire -- were described as flat or stagnant.

Auto sales were rated mostly weak, general retail sales and commercial real estate fair to weak, and housing fair to strong. Manufacturing was mostly fair, but varied by industry. Paper, plastics, printing and food processing were rated strong; housing-related, breweries, and farm and construction machinery fair; and marine and auto-related weak. Most bankers anticipate little improvement in the economy during the next six months.

Loan demand is flat, while credit standards have been tightened, especially for commercial real estate. About 1 percent of all loans are nonperforming. Only 13 percent expect higher loan charge-offs this year; 39 percent anticipate lower charge-offs.

Other Upper Midwest Cities Robust

Bankers in Sioux Falls, Rapid City, Duluth, Rochester, St. Cloud, Omaha, Lincoln, Fargo and Bismarck rate local economic conditions fairly high. Each of these cities serve as a major center for shopping, health care and other services.

Economic conditions in Sioux Falls and Rapid City are considered good to very good -- the strongest rating for cities in the Upper Midwest. Housing, manufacturing and farming are strong, while auto sales and commercial real estate are fair. Duluth, Rochester and St. Cloud scored nearly as high.

Economic conditions in Omaha and Lincoln were also considered good, weathering the national recession rather well. Employment growth remains high, especially for construction, manufacturing and services. Any slowdown in the economy was short-lived. Bankers expect moderately stronger conditions during the next six months.

Despite weakness in the rest of North Dakota, Fargo and Bismarck received fairly good ratings, but are not considered as strong as previously mentioned Upper Midwest cities.

In Montana, Billings and Great Falls generally received fair ratings. Billings' economy is slowly improving, boosted by strong cattle prices, tourism and expansion of health care. The Great Falls economy is flat, dependent on agriculture, the Air Force base and tourism. Only the latter has been fairly strong.

Loan demand has been fairly weak at most of these cities with the exception of Sioux Falls and Rapid City. Nonperforming loans have been fairly low, and charge-offs are typically expected to decline this year.

Strength Varies in Illinois, Indiana

Peoria, Illinois was rated mostly good. Auto sales and manufacturing were considered fair, and general retail sales, housing, commercial real estate and farming good. Little change to slightly weaker conditions are expected in the next six months, with attention focused on pending labor negotiations at Caterpillar.

Rock Island and Moline received fair to good marks as bankers noted continued slow improvement in economic conditions. Retail sales, manufacturing and commercial real estate are fair to weak, while housing and tourism are strong -- the latter receiving a boost from riverboat gambling.

Bankers indicate that Galesburg and surrounding communities are in a mild recession. Mainstreet businesses and manufacturing are fair to weak, while housing and farming are fair to strong. Not much change is anticipated during the next six months. The outcome of labor negotiations at Caterpillar is also crucial to Galesburg's economy.

Economic conditions in South Bend and Elkhart, Indiana, were rated only fair. Auto sales were the weakest, followed by commercial real estate and general retail sales. Manufacturing was rated fair to weak, especially for tires, manufactured houses and recreational vehicles. Bankers substantially tightened credit standards, especially for commercial real estate. The fate of the local economy is largely tied to the national economic recovery.

Nonperforming loans at these Illinois and Indiana banks averaged 0.9 percent, but the median response was only half that amount. Loan charge-offs are expected to be the same to moderately lower than last year.

Colorado's Economy Starting to Mend

Although Denver's economy is rated only fair, bankers indicate that it is slowly improving. Auto sales are weak, but the housing market is starting to strengthen. House prices and building permits are up slightly, while the inventory of foreclosed properties is dwindling. A glut of office space still exists, but the excess is gradually being absorbed. Manufacturing is rated fair to weak, reflecting cutbacks in defense and a sluggish high-tech sector.

Boulder's economy is rated good, among the strongest in Colorado. Retail sales, housing, high-tech manufacturing and tourism are all considered strong. Continued steady growth is forecasted.

Fort Collins and Loveland are rated mostly good, but not as strong as Boulder. The housing market is good, while retail sales and manufacturing are mostly fair. Economic conditions in Pueblo and Greeley are fairly flat, with little change anticipated during the next six months.

Colorado Springs remains weak. The commercial real estate market is very weak, housing mostly weak and manufacturing fair. Farming and tourism are stabilizing forces. Additional defense cuts will hurt the local economy, but the arrival of Apple Computer, Inc. and MCI Communications will help fill the void.

Economic conditions in agricultural areas typically aren't as strong as tourist areas. Cow-calf and cattle feeders are doing fairly well, but grain farmers are showing little profit.

Colorado's economy is expected to show slow, gradual improvement this year. The recovery will gain strength as the remaining excesses in the real-estate market are eliminated. However, the state remains vulnerable to anticipated cuts in defense spending.

Loan volume is down about 4 percent from a year ago at Denver banks, flat in Boulder and Colorado Springs, but up about 4 percent elsewhere in the state. Nonperforming loans are fairly high, averaging 5 percent in Denver and Colorado Springs, 2 percent in Boulder and 3 percent elsewhere -- but the median values aren't as high. Bankers have substantially tightened credit standards, especially for commercial real estate. Most Denver and Boulder bankers and about half of the bankers elsewhere anticipate lower loan charge-offs this year; only 20 percent project higher charge-offs.

Wyoming's Economy Improving

Bankers indicate that Wyoming's economy is slowly improving. Thirty-five percent of the bankers

rated economic conditions good, 39 percent fair and 26 percent poor. Farming, especially cattle production is rated mostly strong to very strong, coal mining mostly strong and tourism fair to good. Oil/gas production, metal mining and logging are mostly fair to weak.

Loan volume is up 5 percent from a year ago. Nonperforming loans averaged 2.7 percent; the median response is 1.5 percent. Nearly 60 percent of the bankers expect lower loan charge-offs this year, versus 13 percent higher.

Phoenix Flat, Improvement Forecast

The Phoenix economy is rated only fair. Commercial real estate is very weak, with office vacancy rates hovering around 26 percent. The supply of apartments is also excessive, but vacancy rates are falling.

Nonperforming loans average about 2 percent, but charge-offs are expected to decline this year. Bankers report no change in already tight credit standards.

Bankers expect the economy to improve during the next six months. Tourism is good and employment continues to increase, especially in services.

Nonurban Communities Mixed

With some exceptions, bankers from small and medium-sized communities rated the economy mostly fair to good. Iowa topped the list; 64 percent of the bankers scored economic conditions good and only 3 percent poor. Nebraska was a fairly close second, followed by Wisconsin, South Dakota, Minnesota, western Montana and nonagricultural areas of Colorado. The rest of Colorado and Wyoming were somewhat weaker, followed by eastern Montana. North Dakota reported the weakest conditions; 35 percent of the bankers rated the economy poor, 61 percent fair and only 4 percent good.

Iowa's and Nebraska's favorable ratings reflect excellent cattle and hog prices. Wisconsin and Minnesota were dragged down by unprofitable milk prices. Weak ratings in North Dakota and eastern Montana reflect several years of drought and emphasis on wheat and other small grains. Better moisture supplies, favorable cattle prices and tourism have assisted western Montana, but metal mining and timber are weak. Recent rains may bring welcome relief to North Dakota, eastern Montana and other dry areas in the region.

As shown in the tables below, regional trading centers are stronger than smaller rural towns. Mainstreet businesses were rated mostly fair in regional trading centers, but fair to weak in smaller towns. Mainstreet businesses in small towns have been losing out to regional shopping centers. Expansion by Wal-Mart, K-Mart and other discount stores typically has cut into sales by other retailers throughout the region.

Housing and manufacturing typically were stronger in regional trading centers. However, manufacturing isn't as strong as last fall.

Not much change is expected in economic conditions during the next six months. Bankers in regional centers in Iowa, Montana, Wisconsin and Wyoming as well as nonagriculture areas in Colorado look for the most improvement.

Divergence in Farm Earnings

The rural economy is being supported by very good cattle and hog prices. Livestock feeders are able to pay down debt or purchase equipment without much increase in debt. Bankers anticipate continued favorable livestock earnings this year, but note that high-priced feeder cattle and pigs pose significant risk to livestock producers, should markets weaken. Cow-calf producers are also doing well, although earnings in drought areas have been held down by the need to purchase feed. Sheep ranchers haven't fared as well.

Dairy producers have come under considerable pressure due to the collapse in milk prices starting last fall, with some farmers liquidating dairy operations. Mainstreet businesses dependent on dairy earnings are also hurting.

ECONOMIC CONDITIONS IN AGRICULTURAL AREAS

	Overall Conditions		Mainstreet Business	
	Regional Centers	Small Towns	Regional Centers	Small Towns
Iowa	161	145	95	91
Minnesota	136	122	94	81
Montana	147	98	128	74
Nebraska	150	137	107	89
N. Dakota	108	71	75	52
S. Dakota	128	129	80	84
Wisconsin	150	126	90	82
Colorado	160	116	109	87
Wyoming	130	98	100	65

Weak < 100 Fair = 100 Strong > 100

HOUSING AND MANUFACTURING CONDITIONS

	Housing Market		Mfg. Sector	
	Regional Centers	Small Towns	Regional Centers	Small Towns
Iowa	142	124	124	101
Minnesota	128	97	108	95
Montana	131	77	113	73
Nebraska	119	106	85	100
N. Dakota	75	49	88	63
S. Dakota	128	91	68	82
Wisconsin	130	105	123	105
Colorado	133	104	118	89
Wyoming	135	99	100	64

Weak < 100 Fair = 100 Strong > 100

1. Nonperforming loans as a percentage of total loan portfolio?

Cities	Survey Average	Response by Percentile 25th	50th	75th
Mpls-St. P.	1.7	0.3	1.0	2.0
Iowa MSAs	0.5	0.3	0.5	0.6
Wis. MSAs	1.4	0.3	0.8	2.0
Other MSAs	1.2	0.1	0.5	1.9
Peor.-R.I.-Mol.	0.4	0.0	0.2	0.7
S.Bend-Elkhart	1.7	0.0	1.0	1.5
Phoenix	2.9	0.5	2.0	5.0
Denver	5.3	1.5	3.5	7.0
CO Springs	4.6	2.0	3.0	8.0
Rural Areas				
Iowa	1.5	0.0	0.8	2.0
Minnesota	1.6	0.1	1.0	2.0
Montana	2.6	0.2	2.0	4.0
Nebraska	1.5	0.0	1.0	2.0
North Dakota	2.6	0.5	1.5	3.0
South Dakota	2.4	0.0	1.0	3.0
Wisconsin	1.9	0.4	1.0	2.0
Galesburg,IL	1.1	0.0	0.7	1.2
Colorado	3.0	1.0	2.0	4.6
Wyoming	2.7	0.1	1.5	3.0

2. Percentage change in **total loan volume** during last 12 months?

Cities	Survey Average	Response by Percentile 25th	50th	75th
Mpls-St. P.	-0.1	-5.0	0.0	5.0
Iowa MSAs	6.3	0.0	4.0	10.0
Wis. MSAs	0.2	-5.0	0.0	9.0
Other MSAs	2.4	-5.0	0.0	5.0
Peor.-R.I.-Mol.	5.9	0.0	2.0	9.4
S.Bend-Elkhart	5.3	-2.3	-1.8	5.5
Phoenix	-1.9	-10.0	-2.5	7.5
Denver	-4.1	-12.3	-3.7	0.0
CO Springs	0.7	-8.1	0.0	5.1
Rural Areas				
Iowa	8.7	3.0	8.0	12.0
Minnesota	6.2	0.0	5.1	10.0
Montana	0.5	-5.2	0.0	5.0
Nebraska	7.2	2.0	5.0	10.0
North Dakota	1.5	-3.0	1.0	6.0
South Dakota	6.3	0.9	7.0	10.0
Wisconsin	6.1	2.0	5.7	10.0
Galesburg,IL	3.5	0.0	5.0	9.0
Colorado	4.3	-5.0	4.0	12.0
Wyoming	5.1	-2.2	5.0	10.0

3. Percentage of farm/ranch borrowers having **negative cash flow** this year?

	Survey Average	Response by Percentile 25th	50th	75th
Iowa	6.8	2.0	5.0	10.0
Minnesota	10.0	2.0	5.0	15.0
Montana	9.5	0.0	5.0	15.0
Nebraska	7.1	2.0	5.0	10.0
North Dakota	12.1	5.0	10.0	15.0
South Dakota	9.7	2.0	10.0	15.0
Wisconsin	16.1	6.5	15.0	20.0
Galesburg,IL	2.6	0.0	0.0	3.0
Colorado	10.6	2.0	10.0	20.0
Wyoming	4.1	0.0	1.8	10.0

4. Percentage of farm customers that went **out of business** during past 12 months?

	Survey Average	Response by Percentile 25th	50th	75th
Iowa	1.1	0.0	0.5	1.0
Minnesota	1.5	0.0	1.0	2.0
Montana	1.3	0.0	0.0	2.0
Nebraska	1.0	0.0	1.0	1.5
North Dakota	2.1	1.0	2.0	3.0
South Dakota	1.1	0.0	0.5	1.0
Wisconsin	2.6	0.0	1.0	5.0
Galesburg, IL	0.7	0.0	0.0	1.0
Colorado	1.4	0.0	0.0	2.0
Wyoming	0.9	0.0	0.0	1.0

5. Price of **non-irrigated cropland?** (Dollars/Acre)

	Survey Average	Response by Percentile 25th	50th	75th
Iowa	$1,345	1,000	1,400	1,650
Minnesota	945	600	900	1,200
Montana	260	250	300	750
Nebraska	710	450	700	900
North Dakota	415	250	325	400
South Dakota	410	250	375	550
Wisconsin	690	500	650	850
Galesburg,IL	1,865	1,500	1,675	2,050
Colorado	325	200	300	400
Wyoming	185	90	150	225

6. Percentage change in **cropland prices** from a year ago?

	Survey Average	Response by Percentile 25th	50th	75th
Iowa	5.1	2.0	5.0	10.0
Minnesota	7.1	0.0	6.0	10.0
Montana	0.8	0.0	0.0	5.0
Nebraska	5.8	2.0	5.0	10.0
North Dakota	0.8	0.0	0.0	5.0
South Dakota	5.6	0.0	5.0	10.0
Wisconsin	0.3	0.0	0.0	5.0
Galesburg,IL	1.6	0.0	0.7	2.0
Colorado	4.6	0.0	5.0	10.0
Wyoming	2.8	0.0	2.0	5.0

7. Anticipated trend in **farm/ranch income** during **next 12 months?** (% of Bankers by Category)

	Up Moder	No Change	Down Moder	Down Subst
Iowa	17.6	42.9	39.0	0.5
Minnesota	11.2	41.3	44.4	3.1
Montana	28.6	41.1	28.6	1.8
Nebraska	12.9	44.1	43.0	0.0
North Dakota	8.0	37.3	50.7	4.0
South Dakota	14.6	48.3	36.0	1.1
Wisconsin	7.0	16.0	51.0	26.0
Galesburg,IL	50.0	33.0	16.7	0.0
Colorado	33.3	50.9	15.8	0.0
Wyoming	34.6	53.8	11.5	0.0

Grain producers are barely breaking even. Crop prices are fairly low, government subsidies are being paid on fewer acres, and land prices/cash rents are too high. Several years of drought have made matters even worse, especially in North Dakota, eastern Montana and portions of South Dakota, but recent rains should stabilize the situation. Any highly leveraged farmers are also struggling.

As shown on page 5, bankers estimate that 10 percent of their farm borrowers will experience negative cash flow this year, up from 5 percent a year ago. However, the median response showed less change. Cash flows tend to be weakest in North Dakota, South Dakota, Colorado and dairy-dependent Wisconsin.

Overall farm income is projected to be flat to down modestly this year. The same trend is true for farm machinery purchases, with the greatest weakness expected in North Dakota, Wisconsin and eastern Montana.

Exit Rate Turning Upward. The number of producers quitting farming is creeping up. On average, bankers estimate that 1.4 percent of their customers quit farming during the past 12 months, compared with a low of 0.9 percent in October 1989. The exit rate is highest in Wisconsin and North Dakota.

Loan Problems Slightly Higher. Bankers indicate that many farmers did not show financial improvement last year. And for the first time in several years, a few credit lines experienced some trouble. Loan problems could escalate if milk prices don't improve.

On average, 1.6 percent of all farm loans were nonperforming (the median response was 0.5 percent), up from a low of 1.2 percent a year ago. As shown on page 5, Colorado, North Dakota, Montana and Wyoming bankers reported the highest level of nonperforming loans. However, despite recent slippage, farm loans still appear to be in better shape than the overall loan portfolio.

Half of the bankers expect no change in the level of loan charge-offs this year, while those expecting fewer charge-offs (32 percent) outnumber those anticipating increased charge-offs (20 percent). Bankers in Wyoming and Colorado project the biggest drop in charge-offs.

Land Prices Too High. Land prices are about 5 percent higher than a year ago. However, most bankers in North Dakota, eastern Montana, Wisconsin, and northeastern Minnesota reported no increase and only small increases were observed in Wyoming and Galesburg, Illinois. Actual prices are shown on page 5.

Bankers indicate that land prices and cash rents are too high relative to income, bidding the profit out of crop production. The upward pressure on land prices is coming from farmers wishing to expand, and is being supported by livestock profits. Fortunately, farmers are putting more equity in land, avoiding the financial problems of the mid 1980s.

About 29 percent of the bankers expect moderate rises in land prices this year, while 14 percent predict moderate declines. Upward potential appears greatest in Iowa, western Montana, Wyoming, Colorado, and Minnesota.

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